HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK
St. Catharines-Niagara CMA

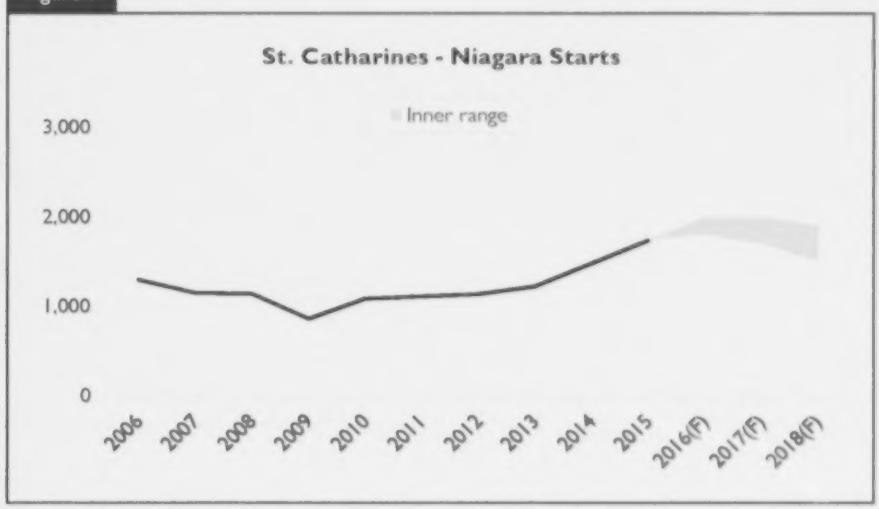
CANADA MORTGAGE AND HOUSING CORPORATION

Date Released: Fall 2016

Highlights[1]

- Existing home sales in 2016 are expected to set a record and remain near that level in 2017 before cooling in 2018.
- Growth in the average resale price in 2016 will be exceptionally strong, but as supply and demand begin to rebalance, price growth will slow over the next two years.
- Housing starts in 2016 will range between 1,800 and 2,000 as a result of strong demand, and will remain elevated in 2017 before slowing in 2018.
- Employment in the region will experience a slight decline in 2016, followed by a modest longer-term increase through 2017–2018.

Figure 1



Source: CMHC (F) = CMHC Forecast

[1] The forecasts and historical data included in this document reflect information available as of September 30, 2016.

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New Home Market: New Single-Detached Homes will Remain Popular in 2017

Total housing starts in the St. Catharines-Niagara Census Metropolitan Area (CMA), hereafter referred to as 'SCN', have been on a strong upward trend since 2013. Last year, total starts grew by 17.4 per cent to 1,737, and it is anticipated that starts will range between 1,800 and 2,000 in 2016. Strong demand in the resale market is currently driving up demand in the new home market. Total housing starts in 2016 are being driven in large part by new single-detached homes. While many of these homes are being built in Niagara Falls, most other municipalities in the region have also been experiencing relatively strong growth in starts since 2013. The trend towards single-detached homes was not always the case in SCN. In 2015, 58 per cent of new units built were single-detached homes compared to roughly 80 per cent in the early 2000s. The recent increase in demand for single-detached units in SCN appears to be a result of their relative affordability compared to homes in Toronto and Hamilton CMAs.

In 2017, total starts will remain high within a range of 1,700 and 2,000, followed by a moderate decline in 2018 (between 1,500 and 1,900 starts) as demand begins to cool. While low mortgage rates are currently supporting a heightened level of homeownership, higher anticipated rates over the forecast horizon should reduce demand. Additionally, slow employment growth over the next two years will further curb demand for new housing in the region.

Figure 2

Source: CREA (F) = CMHC Forecast; ® MLS is a registered trademark of the Canadian Real Estate Association (CREA)

Note to readers

In an effort to align itself with the various needs of those seeking information about the housing market, CMHC's Market Analysis Centre has undertaken a complete review of its products and services. As a part of this review, the CMHC's *Housing Market Outlook* publication will be undergoing a series of modifications. The general objective is to provide a range of possible outcomes that, in a context of economic and financial uncertainty, will better help users in their decision-making process.

As a first step in this ongoing process, the present edition incorporates forecast ranges for housing variables as well as an expanded discussion on the risks to the forecast. A more detailed description of the forecast range methodology is provided at the end of the publication.

Resale Market: Sales Will Reach Historic Highs in 2016, Remain Elevated in 2017

Similar to the new home market, the resale market has been strong since 2013, and exceptionally so this year. By the end of 2016, it is anticipated that sales in St. Catharines-Niagara will range between 7,600 and 7,700, exceeding the previous annual historic high of 7,406 in 1989. St. Catharines and Niagara Falls have been leading the pack in terms of number of sales this year, however all municipalities in the region have experienced strong growth in sales since 2013. The biggest factor driving sales to a record number is the relative price differential in nearby markets such as Toronto and Hamilton. As of the second quarter of 2016, the seasonally adjusted average MLS® price in St. Catharines-Niagara CMA was $305,786 compared to $494,355 in Hamilton CMA and $712,086 in the Greater Toronto Area.

Individuals are attracted to the SCN housing market given the relative affordability, which as a result is

driving up sales and prices in the region. In 2017, sales of existing homes will remain elevated as a result of continued strong demand in the market, but will face some downward pressure as prices continue to rise and interest rates rise by the end of 2017.

Strong Price Acceleration in 2016 and 2017 Will Reduce Affordability

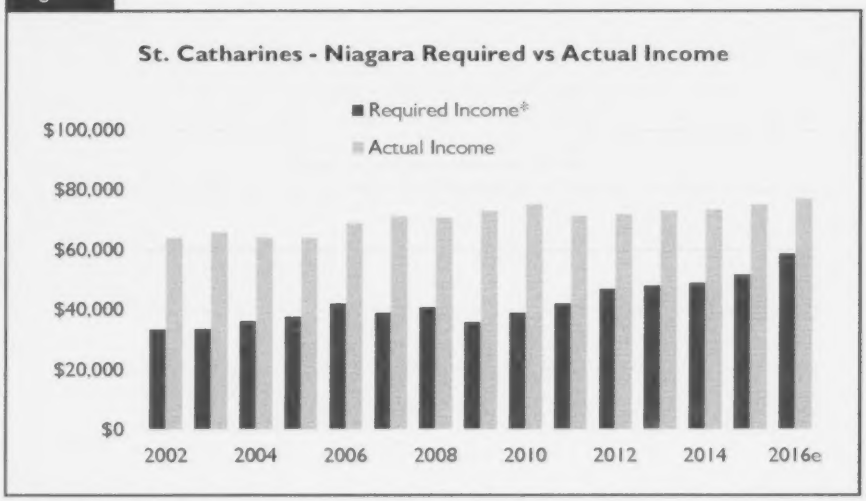
The heightened demand has meant sales have been growing faster than listings in the region, fostering a strong seller's market where the sales-to-new listing ratio was 88 per cent in the second quarter of 2016. The high and increasing sales-to-listing ratio is being supported by intra-provincial migrants who are purchasing homes in SCN but listing their former property in the jurisdiction they moved from. This tightness in the resale market has resulted in exceptionally strong price growth in the region in 2016, where, year-over-year, the average MLS® price in August 2016 grew by 18 per cent, or nearly $52,000. The municipalities that experienced the strongest price growth during this period included Port Colborne/Wainfleet (52 per cent), Niagara Falls (30 per cent), and Fort Erie (26 per cent).

The average resale price in 2016 for the region as a whole is expected to range between $304,600 and $316,800. In 2017, prices will continue to grow, but at a slower pace than in 2016, reaching a range of between $322,500 and $339,400. The strong price growth in 2016 will erode affordability in the market, where a household's required income for homeownership will increase at a faster pace than earned income. Reduced affordability from increased prices, coupled with higher mortgage rates and modest employment growth over the forecast horizon, will lower demand in the resale market, therefore slowing the level of price growth in 2017 and 2018.

Rental Market: Rental Market Will Continue to Tighten in 2017

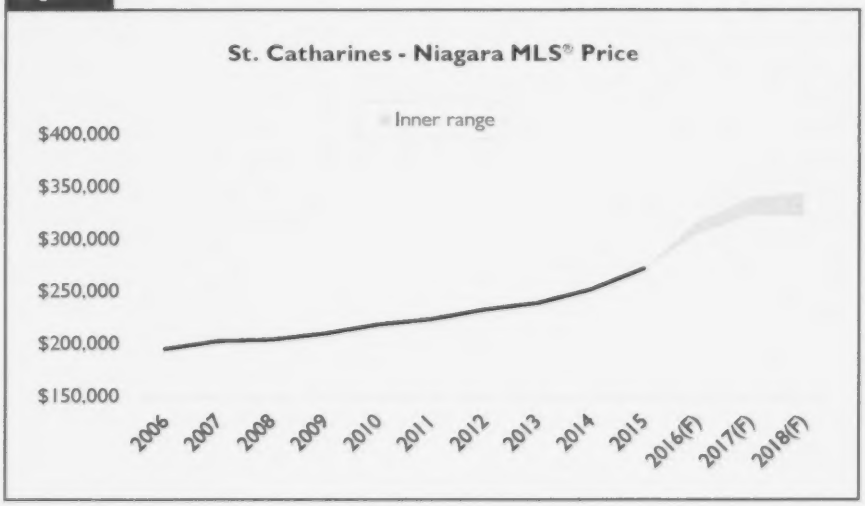
Strong housing demand has significantly impacted the rental market through lower vacancy rates and increased rents in recent years. As new listings in the resale market continue to get soaked up by eager buyers, and resale prices continue to rise at a sharp pace, demand will spill over into the rental market. Potential first-time buyers, who are currently renters, will delay

Figure 3



Source: CMHC, adapted from Statistics Canada, CREA, e = estimate
*Required income is mortgage carrying costs divided by 0.32 to reflect the usual 32 per cent gross debt service ratio. Mortgage carrying costs are calculated on the average MLS® price, a 10 per cent down payment, the fixed five-year mortgage rate and the longest available amortization.

Figure 4



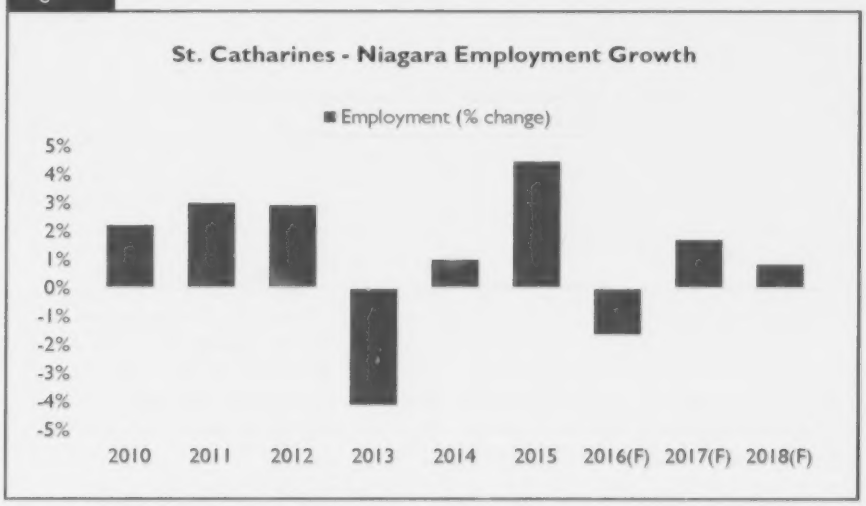
Source: CREA; (F) = CMHC Forecast; ® MLS is a registered trademark of the Canadian Real Estate Association (CREA)

their purchase given the market conditions, while at the same time, employment growth among youth and young adults (i.e., 15 to 24 years of age) in the region will encourage these individuals to leave the parental home and seek rental units before transitioning into homeownership. However, on the other hand, full-time employment growth among 25 to 44 year olds will encourage some of these individuals to leave the rental market for homeownership, therefore partly offsetting the decline in the vacancy rates. In 2016 and 2017, the vacancy rate for rental apartments with three or more units will continue to decline to 2.7 and 2.6 per cent, respectively. The continued demand for rental units will further increase rents during this period. As of August 2016, there were 234 rental units under construction, however despite the additional supply, these new units will continue to be absorbed by renter demand.

Figure 5

Source: CMHC; (F) = CMHC Forecast

Figure 6



Source: CMHC, adapted from Statistics Canada, Labour Force Survey; (F) = CMHC Forecast

Economic Trends: Intra-provincial Migration is Driving Demand for Housing

Migratory patterns in SCN have been, and will continue to be, a key component in the housing market. Intra-provincial migrants – individuals who move from one area to another within the same province – have been driving population growth in recent years. The majority are coming from CMAs such as Toronto (especially the western most districts of Peel and Halton) and Hamilton. On the other hand, interprovincial migrants – individuals who move from one province to another – have been offsetting some of the population growth. This trend is expected to reverse given lower employment prospects in Alberta as a result of low oil prices. International migrants have also been contributing positively to population growth in the region, and while their numbers have been on a downward trend up to 2014, the 2015/2016 influx of Syrian refugees into Canada will boost migration numbers.

Employment in the region is expected to experience a 1.6 per cent decline in 2016, despite the contribution from intra-provincial migration. Employment will continue along its modest positive underlying growth trend throughout 2017 and 2018, growing by 1.7 and 0.8 per cent, respectively. SCN has been experiencing downward employment trends in most goods-producing industries (excluding construction), which are partially offsetting growth in services-producing industries such as health care and social services and information, culture and

recreation. The demographic shift to an older population is driving the former, while the region's tourism industry – which is being supported by a close proximity to the US and a relatively weak loonie – is driving the latter. Announcements such as the expansion of GO Train service to the region, and a new General Electric manufacturing plant that will be opening in Welland in 2018 will increase employment. Underlying job growth in the region will increase faster than the labour force, reducing unemployment modestly in 2017 and 2018. As a result, average hourly earnings are expected to rise modestly in 2017 and 2018.

Mortgage rates are expected to rise modestly over the forecast horizon

Mortgage rates are expected to increase very modestly over the period 2016-2018. This is consistent with the expected pick-up over the horizon for inflation and real GDP growth by several forecasting institutions.

According to our base case scenario, the posted 5-year mortgage rate is expected to be within a 4.5 to 4.9 per cent range in 2016 and within a 4.4 to 5.2 range in 2017. For 2018, the posted 5-year mortgage rate should lie within a 4.5 to 5.7 per cent range.

Methodology for forecast ranges

The present edition of *Housing Market Outlook* incorporates forecast ranges for housing variables. Despite this change, all analyses and forecasts of market conditions continue to be conducted using the full range of quantitative and qualitative tools currently available. Two sets of ranges are presented in the publication:

- An inner range, which provides more precise guidance to readers on the outlook while recognizing the small random components of the relationship between the housing market and its drivers. This inner range is based on the coefficient of variation* of historical data and on past forecast accuracy. This range provides precision and direction for forecasts of housing variables, given a specific set of assumptions for the market conditions and underlying economic fundamentals.
- An outer range, which reflects potential risks to the forecast due to, for example, the impact of economic shocks. The outer range is based on a broader coefficient of variation of historical data and on past forecast accuracy. This range includes some low-probability events that could have a significant impact on the forecast.

Downward (or upward) adjustments to the ranges may be applied based on local market intelligence if there are more sources of risks (upside or downside) for that specific market.

* The coefficient of variation in this case is the standard deviation divided by the mean of that series. A higher coefficient of variation would produce wider ranges due to the higher volatility of the data, while a lower coefficient of variation would produce tighter ranges.

Trends at a glance

Key Factors and their Effects on Housing Starts	
Mortgage Rates	Mortgage rates are expected to stay near current levels until the end of 2016, before rising modestly over the forecast horizon. This should contribute to a slight moderation in housing demand by the end of 2018.
Employment	Employment will grow modestly over the forecast horizon as a result growing construction and tourism industries, as well as recently announced projects, allowing more households to enter homeownership.
Income	Wage growth is expected to increase modestly over the forecast period, however prices of homes are expected to grow at a much faster rate, therefore reducing the affordability of homeownership in the region.
Resale Market	The strong demand for housing will keep sales elevated, and continue to put pressures on the average resale price in the region. Demand is expected to spill over into the new home market keeping housing starts at relatively high level.

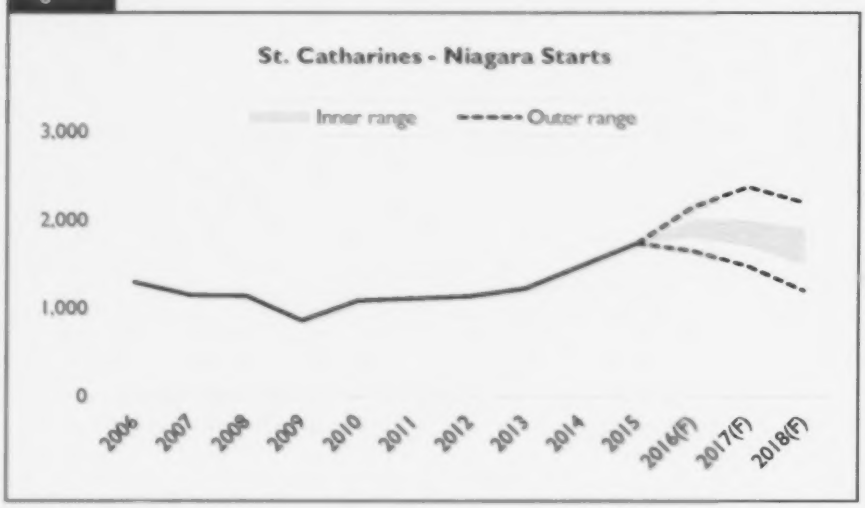
Risks To The Outlook

- A heightened level of uncertainty poses some risks to the St. Catharines-Niagara economic and housing outlook. This can result in a wider range of possible outcomes relative to our outlook.
- Risks to St. Catharines-Niagara remain balanced.

New Home Market

- A number of factors could result in housing starts reaching the outer range. On the upside, lower than expected new listings and higher than expected intra-provincial migrants will put pressure on the demand for new housing. However, on the downside, a faster than expected slowdown in the resale market or in employment could push total starts closer to the bottom of the outer range.

Figure 7

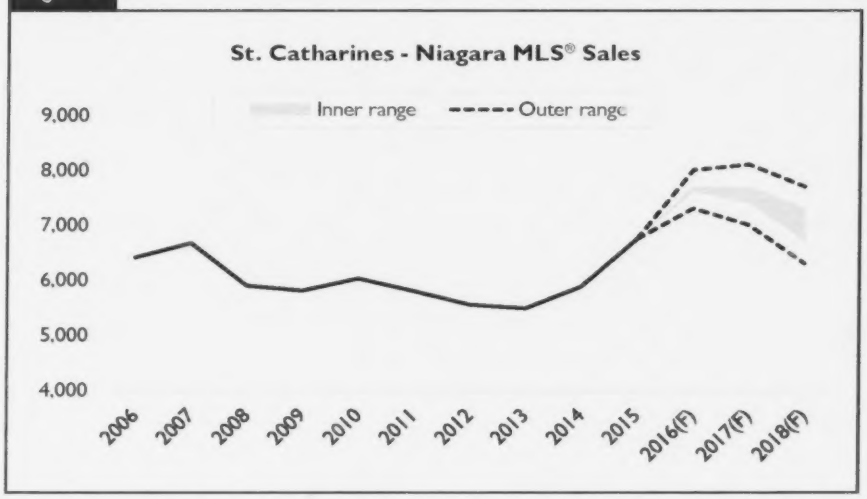


Source: CMHC (F) = CMHC Forecast

Existing Home Market

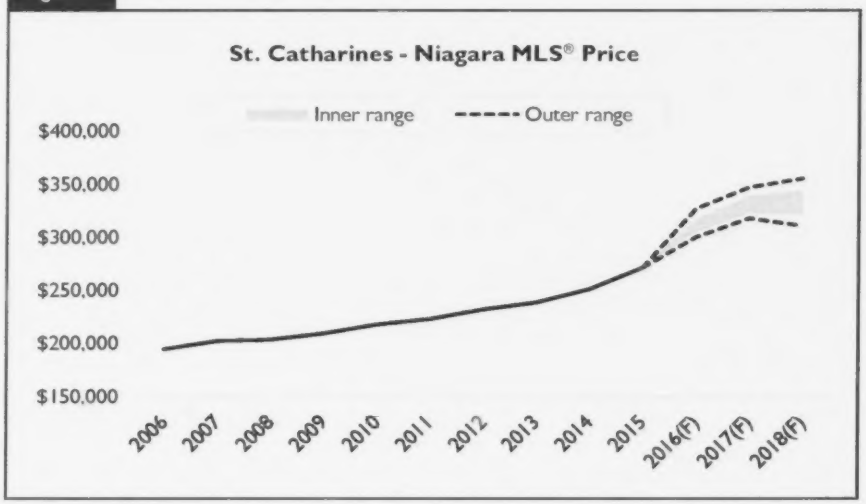
- Lower or no change in interest rates, a larger-than-expected expansion in the US economy, and further reduction in the value of the Canadian dollar could increase sales of existing home to the upper end of the outer range. On the other hand, excessive price acceleration will erode the affordability of housing and therefore lower existing home sales to the lower end of the outer range.
- A higher than expected increase in migrants moving into the region and higher than expected wages could push prices to the higher end of the outer range. On the other hand, if economic fundamentals such as employment and income are lower than expected then average prices may move to the lower end of the outer range.

Figure 8



Source: CREA; (F) = CMHC Forecast; ® MLS is a registered trademark of the Canadian Real Estate Association (CREA)

Figure 9



Source: CREA; (F) = CMHC Forecast; ® MLS is a registered trademark of the Canadian Real Estate Association (CREA)

The impact of mortgage regulation changes

On October 3, the Government of Canada announced measures designed to support the health and stability of Canadian housing markets and housing finance system. The measures include new eligibility rules for high ratio insured mortgages (where the loan to value ratio is greater than 80%) and new eligibility criteria for low ratio insured loans (loan-to-value less than 80%) that previously only applied to high ratio mortgages. Under the new measures, all high ratio mortgages will now be "stress tested" to ensure borrowers can afford their loan if interest rates rise. Borrowers will now have to meet higher debt servicing limits calculated using the greater of the contract rate and the Bank of Canada's 5 year posted rate. The latter is currently more than 2% higher than typical contract rates. This "stress test" approach has been applied since 2010 to variable rate mortgages and fixed rate mortgages of a term of less than 5 years. Applying this stress test to loans with terms of five years and longer extends this test to all high-ratio insured mortgages.

As the policy just took effect, it is difficult to precisely evaluate the impacts on housing markets. In general, an increase in mortgage rates affects house prices, sales, and starts negatively. However, the stress test approach affects the size of the insured mortgage for which the home borrower qualifies and it

is not an increase in the mortgage rate itself. As a result, borrowers could adjust their purchase behaviour in several ways. For example, they could purchase homes that are less expensive, add more down payment, delay their purchase in order to save additional funds for down payment, or add a co-signor. According to our analysis, from 5 to 10 per cent of all prospective home buyers could be affected during the first year of implementation, but the precise impact will vary depending on specific homebuyer circumstances and behaviours. Considering regional variations in drivers of housing activities, it is also likely that the impact of the announced changes could be different across the country. Taking into account all possible scenarios, the impacts on house prices, sales, and starts are within the lower band of our outer forecasting range that is designed to capture unexpected economic and financial developments, as well as unforeseen regulatory changes at the local, provincial, and national levels.

Forecast Summary
St. Catharines-Niagara CMA
Fall 2016

	2013	2014	2015	2016(F)		2017(F)		2018(F)	
				(L)	(H)	(L)	(H)	(L)	(H)
New Home Market									
Starts:									
Single-Detached	717	896	1,002	1,300	1,400	1,200	1,400	1,100	1,300
Multiples	506	583	735	500	600	500	600	400	600
Starts - Total	1,223	1,479	1,737	1,800	2,000	1,700	2,000	1,500	1,900
Resale Market									
MLS® Sales	5,483	5,875	6,746	7,600	7,700	7,400	7,700	6,700	7,300
MLS® Average Price($)	238,449	251,297	271,425	304,600	316,800	322,500	339,400	321,600	344,500
Economic Overview									
Mortgage Rate(5 year)(%)	5.24	4.88	4.67	4.50	4.90	4.40	5.20	4.50	5.70

	2013	2014	2015	2016(F)	2017(F)	2018(F)
Rental Market						
October Vacancy Rate (%)	4.1	3.6	2.8	2.7	2.6	2.5
Two-bedroom Average Rent (October)($)	872	892	909	925	940	960
Economic Overview						
Population	405,168	406,773	408,222	409,700	411,100	412,600
Annual Employment Level	193,500	195,400	204,100	200,800	204,200	205,900

Multiple Listing Service® (MLS®) is a registered trademark of the Canadian Real Estate Association (CREA).

Rental Market: Privately initiated rental apartment structures of three units and over.

The forecasts (F) included in this document are based on information available as of 30th September 2016. (L)=Low end of Range. (H)=High end of range.

It is possible that the low end (L) and the high end (H) of forecast ranges for residential housing starts for singles and multiples jointly may not add up to the total. This is caused by rounding as well as the volatility of the data.

Source: CMHC (Starts and Completions Survey and Market Absorption Survey). Statistics Canada. MLS® data includes the St. Catharines - Niagara and Welland boards. CMHC Forecast (2016-2018).

DEFINITIONS AND METHODOLOGY

New Home Market

Historical home starts numbers are collected through CMHC's monthly Starts and Completions Survey. Building permits are used to determine construction sites and visits confirm construction stages. A start is defined as the beginning of construction on a building, usually when the concrete has been poured for the whole of the structure's footing, or an equivalent stage where a basement will not be part of the structure.

Single-Detached Start:
The start of a building containing only one dwelling unit, which is completely separated on all sides from any other dwelling or structure.

Semi-Detached Start:
The start of each of the dwellings in a building containing two dwellings located side-by-side, adjoining no other structure and separated by a common or party wall extending from ground to roof.

Row (or Townhouse) Start:
Refers to the commencement of construction on a dwelling unit in a row of three or more attached dwellings separated by a common or party wall extending from ground to roof.

Apartment and other Starts:
Refers to the commencement of construction on all dwellings other than those described above, including structures commonly known as stacked townhouses, duplexes, triplexes, double duplexes and row duplexes.

Average and Median Single Detached Home Prices:
Are estimated using CMHC's Market Absorption Survey, which collects home prices at absorption and measures the rate at which units are sold or rented after they are completed. Dwellings are enumerated each month after a structure is completed until full absorption occurs. The term "absorbed" means that a housing unit is no longer on the market as it has been sold or rented.

New Home Price Indexes:
Changes in the New Home Price Indexes are estimated using annual averages of Statistics Canada's monthly values for New Housing Price Indexes (NHPI).

Resale Market

Historical resale market data in the summary tables of the Housing Market Outlook Reports refers to residential transactions through the Multiple Listings Services (MLS®) as reported by The Canadian Real Estate Association (CREA). In Quebec, this data is obtained by the Centris® listing system via the Quebec Federation of Real Estate Boards.

MLS® (Centris® in the province of Quebec) Sales:
Refers to the total number of sales made through the Multiple Listings Services in a particular year.

MLS® (Centris® in the province of Quebec) Average Price:
Refers to the average annual price of residential transactions through the Multiple Listings Services.

Rental Market

Rental Market vacancy rates and two bedroom rents information is from Canada Mortgage and Housing Corporation's (CMHC's) October Rental Market Survey (RMS). Conducted on a sample basis in all urban areas with populations of 10,000 and more, the RMS targets privately initiated structures with at least three rental units, which. have been on the market for at least three months. The survey obtains information from owners, managers, or building superintendents through a combination of telephone interviews and site visits.

Vacancy Rate:
The vacancy rate refers to the average vacancy rate of all apartment bedroom types. A unit is considered vacant if, at the time of the survey, it is physically unoccupied and available for immediate rental.

Two Bedroom Rent:
The rent refers to the average of the actual amount tenants pay for two bedroom apartment units. No adjustments are made for the inclusion or exclusion of amenities and services such as heat, hydro, parking, and hot water.

Economic Overview

Labour Force variables include the Annual Employment Level, Employment Growth, Unemployment Rate. Source: Statistics Canada's Labour Force Survey.

Net Migration:
Sum of net interprovincial (between provinces), net intra-provincial (within provinces), net international (immigration less emigration), returning Canadians and temporary (non-permanent) residents as provided to the CANSIM database by Statistics Canada's Demography Division. Sources of inter-provincial and intra-provincial migration data include a comparison of addresses from individual income tax returns for two consecutive years from Canada Revenue Agency (CRA) taxation records. The migration estimates are modelled, with the tax file results weighted to represent the whole population.

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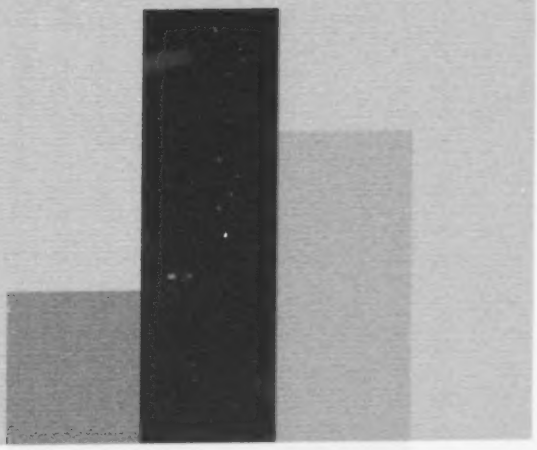

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- Seniors' Housing Reports

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